

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: West County Health Centers, Inc. ("West County") 16312 Third Street Guerneville, CA 95446 Sonoma County		Amount Requested: \$193,000	
		Requested Loan Term: 10 years	
		Date Requested: February 26, 2004	
		Resolution Number: HII-159	
Project Site: Russian River Health Center 16312 Third Street, Guerneville, California			
Facility Type: Community clinic			
Policy Issue: West County requests the release of a security held by the Authority as collateral for its 1998 HELP II loan. Staff recommends approval for the reasons outlined on the following page.			
Use of Loan Proceeds: Loan proceeds will be used to construct a centralized support services facility and convert vacated space to provide medical, counseling, and educational services.			
Type of Issue:	HELP II Loan		
Prior HELP II Borrower:	Yes. Payments are current. Loan balance is \$206,839. West County is seeking to borrow \$193,000, bringing their total loans outstanding to approximately \$400,000.		
Financial Overview: West County is a growing organization that has demonstrated profitable operations, leading to a strong growth in net assets, strong liquidity, and a low level of debt. Proforma debt service coverage will be adequate.			
Sources of Revenue:	<u>Amount</u>	<u>Percent</u>	
(FYE 12-31-02) Net patient fees	\$ 2,326,789	52%	
Grant revenue	1,951,198	44%	
Other	<u>202,649</u>	<u>4%</u>	
Total Support and Revenue	<u>\$4,480,636</u>	<u>100%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$193,000	Construction	\$637,000
Equity Contribution	207,000	Remodeling	20,000
Grant Funds	275,000	Equipment	89,000
Other loan	<u>75,000</u>	Financing Costs	<u>4,000</u>
Total Sources	<u>\$750,000</u>	Total Uses	<u>\$750,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for West County Health Centers, Inc. in an amount not to exceed \$193,000 for a term of 10 years subject to the standard HELP II loan provisions and for the replacement of a \$100,000 security with adequate real property collateral.			

STAFF SUMMARY AND RECOMMENDATION

WEST COUNTY HEALTH CENTERS, INC. (“WEST COUNTY”)

February 26, 2004

Resolution Number: HII-159

POLICY ISSUE: The Authority required West County to pledge a \$100,000 security in connection with its 1998 HELP II loan, due to the lack of other collateral at that time. West County seeks to have that security released, contingent upon recording a lien in that amount for the property to be held as collateral for this new HELP II loan. The Authority, therefore, would record a first position lien in the amount of \$293,000 on the property located at the Guerneville project site. Staff recommends approval based on the estimated as-improved property value of \$650,000.

I. PURPOSE OF FINANCING: West County proposes to construct a building to centralized various support services and to convert vacated space to provide medical, counseling, and educational services.

A description of the project is as follows:

Construction\$637,000

West County seeks to construct a 2,800 square foot building, connected to an existing facility at its Russian River Health Center, to centralize support services, including human resources, financial services, and information technology.

Estimated costs include architectural, permits, and other pre-construction costs totaling \$106,000. Construction is expected to commence by late spring and be completed by the end of the year. A contractor has not yet been selected.

Remodeling\$20,000

West County will convert existing office space (vacated upon completion of the new building) into two additional dental operatories, two additional counseling rooms, a lab drawstation and additional offices for case management and health education visits. West County anticipates 2,800 dental visits, 1,500 counseling visits and 500 case management visits annually in the remodeled facility.

Equipment\$89,000

West County will purchase two dental chairs and related equipment, dental x-ray equipment, as well as a backup generator for its new building.

Financing Costs \$4,000

Authority Closing Fee..... \$2,500

Title/Escrow/Other..... 1,500

Total \$750,000

Financing structure: The West County loan will be structured as follows:

- 10-year loan term.
- 120 equal monthly payments of roughly \$1,864 (yearly payments of about \$22,368).
- Total interest payments of approximately \$30,635.
- 1st position lien on property located at, or adjacent to, 16312 Third Street, Guerneville, California, in the amount of the loan plus \$100,000 representing the cash collateral (taken on the original HELP II loan) that is now being released. 2nd position lien will be held by Russian River Development Agency, providing a loan of \$75,000.
- Maximum loan to value of 95%. Estimated as-improved property value of \$650,000, providing a loan-to-value of 30%. This ratio would be 45%, if \$100,000 in additional collateral is included.
- 1st lien on corporate gross revenue.

II. FINANCIAL STATEMENTS AND ANALYSIS:

West County Health Centers, Inc. Statement of Activities (Unrestricted)

	For the Year Ended December 31,			
	2003 (unaudited)	2002	2001	2000
Revenues:				
Patient fees, net	\$ 2,199,105	\$ 2,326,789	\$ 2,076,717	\$ 1,946,941
Cost Settlements	36,222	136,068	219,837	341,406
Contributions	17,353	16,318	55,202	11,574
Investment income	9,880	30,030	26,902	13,417
Other	8,931	20,233	41,644	7,124
Net assets released from restrictions	2,139,489	1,951,198	1,217,246	894,907
Total Revenue	4,410,980	4,480,636	3,637,548	3,215,369
Expenses:				
Salaries and benefits - Health care	2,677,133	2,333,095	1,762,663	1,616,347
Salaries and benefits - General & administrative	597,002	529,331	486,079	477,155
Medical supplies	197,218	125,125	93,265	96,621
Depreciation	112,762	102,003	96,977	89,789
Insurance	60,531	65,989	43,610	80,118
Repairs and maintenance	72,629	62,337	81,931	53,495
Utilities	42,582	38,678	32,751	22,029
Interest expense	14,022	18,046	18,550	33,062
Outside/contracted services	223,671	145,197	211,997	156,726
Other	278,045	201,859	196,815	152,065
Total Expenses	4,275,595	3,621,660	3,024,638	2,777,407
Change in Unrestricted Net Assets	135,385	858,976	612,910	437,962
Unrestricted Net Assets at Beginning of Year	3,506,801	2,647,825	2,034,915	1,596,953
Unrestricted Net Assets at End of Year	\$ 3,642,186	\$ 3,506,801	\$ 2,647,825	\$ 2,034,915

West County Health Centers, Inc.
Statement of Financial Position

	As of December 31			
	2003 (Unaudited)	2002	2001	2000
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 1,290,881	\$ 976,667	\$ 1,029,549	\$ 637,592
Patient accounts receivable, net	685,724	540,979	296,526	183,181
Estimated settlements receivable	105,260	284,828	244,249	-
Grants Receivable - Federal	141,478	221,172	33,868	14,739
Grants Receivable - other	252,861	262,875	196,500	72,593
Prepaid assets	75,491	66,597	41,253	10,259
Total Current Assets	2,551,695	2,353,118	1,841,945	918,364
Depreciable assets, net	2,078,348	2,125,792	1,598,142	1,501,219
Land	216,123	216,123	216,123	216,123
Other assets	155,767	139,714	120,108	113,792
Construction in progress	82,411	-	20,856	-
TOTAL ASSETS	\$ 5,084,344	\$ 4,834,747	\$ 3,797,174	\$ 2,749,498
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 52,200	\$ 61,782	\$ 37,740	\$ 16,044
Note payable - current	38,119	36,625	35,193	33,806
Deferred revenue	664,214	530,471	383,633	27,134
Accrued expenses	222,345	195,669	152,759	59,959
Total Current Liabilities	976,878	824,547	609,325	136,943
Long-Term Liabilities:				
Long term debt, net of current maturities	338,060	376,179	412,804	450,419
TOTAL LIABILITIES	1,314,938	1,200,726	1,022,129	587,362
Net Assets:				
Unrestricted Net Assets	3,642,186	3,506,801	2,647,825	2,034,916
Temporarily Restricted Net Assets	127,220	127,220	127,220	127,220
TOTAL NET ASSETS	3,769,406	3,634,021	2,775,045	2,162,136
TOTAL LIABILITIES AND NET ASSETS	\$ 5,084,344	\$ 4,834,747	\$ 3,797,174	\$ 2,749,498

Financial Ratios:

	Proforma ^(a) FYE December 2002			
Debt Service Coverage (x)	12.26 ^(b)	18.39	13.91	11.04
Debt/Unrestricted Net Assets (x)	0.19 ^(b)	0.12	0.17	0.24
Margin (%)		19.17%	16.85%	13.59%
Current Ratio (x)		2.85	3.02	6.71

^(a) Recalculates December 2002 audited results to include the impact of this proposed HELP II loan and other loan of \$75,000.

^(b) Using 2003 unaudited results, DSC would be 3.39x and Debt/Unrestricted Net Assets would be 0.18x.

Financial Discussion:

West County is a growing organization that has demonstrated profitable operations over the four years of our review leading to strong growth in net assets.

West County is a growing organization. Encounters have increased by approximately 24% since 2000, and clients have increased by 12%. In that time, West County has increased its total revenues by 37%, largely by achieving full Federally Qualified Health Center (“FQHC”) status, starting in March 2002. Profitability has increased in each year of our review period through 2002.

2003 was a profitable year, but total revenues declined slightly, as total expenses increased by 18%. In this period, total revenues declined by 1.5%. Although grant revenues increased, net patient revenue decreased by 5.5%. Management attributes this to increased outreach to the uninsured, which is a condition of its FQHC status.

Part of the increase in salary expense in 2003 was a nearly \$100,000 increase in benefits, including the addition of a retirement plan, as well as increases in group health insurance and workers compensation premiums. Although full-time employees increased by approximately 40% since 2000 as services have expanded, there are no plans to add hire additional staff in 2004.

Strong profitability in our review period has led to a 79% increase in net assets since 2000. West County has also expanded its facilities, including a 1,200 square foot expansion of the Russian River clinic, completed in early 2003, mostly with Cedillo-Alarcón grant funds.

West County is highly liquid and has a low level of debt. Proforma debt service coverage will be adequate.

West County has had a current ratio in excess of 2.00x in each year of our review period. Although the increase in patient receivables from \$183,000 in 2000 to \$686,000 is of some concern, West County has a strong cash position. Debt to unrestricted net assets will remain low with this HELP II loan, increasing to only 0.19x.

West County can easily manage the increased debt as shown by a proforma debt service coverage ratio of 3.59x.

III. UTILIZATION STATISTICS:

Number of encounters

	Fiscal year ended December 31			
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Medical	25,150	24,184	21,766	21,114
Dental	2,559	2,802	2,315	1,968
Counseling	2,113	1,865	1,554	1,471
Other	<u>595</u>	<u>641</u>	<u>300</u>	<u>0</u>
Total	30,417	29,492	25,935	24,553

Number of patients, by payor

	Fiscal year ended December 31			
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Medicare	683	676	636	572
Medi-Cal	1,802	1,584	1,760	1,764
CHDP	188	157	334	303
Family PACT	391	322	320	267
Private insurance	2,377	2,190	1,726	1,852
Self-Pay/Uninsured	<u>1,316</u>	<u>1,745</u>	<u>1,497</u>	<u>1,278</u>
Total	6,757	6,674	6,273	6,036

IV. ORGANIZATION:

Background:

West County Health Centers, Inc. was formed in January 2000 with the merger of Russian River Health Center (Guerneville), founded in 1974, and Occidental Area Health Center (Occidental), founded in 1976, both in western Sonoma County. Services provided at the clinics include primary and obstetrical medical care, mental health care, dental care, nutrition services, and limited laboratory and radiology services. West County also contracts with providers of pharmacy services, drug abuse services, and specialty medical care.

In 1998, the Occidental clinic received a HELP II loan, which enabled them to expand their existing facility, doubling its size. In 2001, West County completed the purchase and remodeling of a building for its dental clinic, using its own funds. In late 2002, the Russian River clinic added 1,200 square feet and an elevator, largely with Cedillo-Alarcón funds. In late 2003, West County established a satellite office in the Occidental area in a modular unit located on leased land.

West County is part of the Redwood Community Health Coalition, a regional consortium of health care service providers.

Licenses: West County is licensed as a community clinic by the California Department of Health Services.

Competition: West County's service area covers several hundreds of miles of the northern coastal region of rural western Sonoma County. Medical services in the area is very limited, and West County is the only provider of primary clinic services.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/03* (unaudited)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Farmers Home Administration (USDA)	\$450,000	\$166,243	\$166,243
CHFFA, HELP II, 1998	500,000	209,936	209,936
Proposed:			
CHFFA HELP II Loan, 2004			193,000
Russian River Develop. Agency, 2004			75,000
TOTAL DEBT		<u>\$376,179</u>	<u>\$644,179</u>

* Includes current portion of long-term debt.

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

West County has provided a description of its savings pass through in **Exhibit A**.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) to advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (b) to post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

West County has executed this certification and has provided the required information. A copy of the certification is provided as **Exhibit B**.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for West County Health Centers, Inc. in an amount not to exceed \$193,000 for a term of 10 years subject to the standard HELP II loan provisions and for the replacement of a \$100,000 security with adequate real property collateral.